

Message Text

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ACTION EA-09

INFO OCT-01 EUR-12 ISO-00 AID-05 CIAE-00 COME-00 EB-08
FRB-01 INR-07 NSAE-00 USIA-15 TRSE-00 XMB-04 OPIC-06
SP-02 LAB-04 SIL-01 OMB-01 NSC-05 SS-15 STR-04 CEA-01
L-03 H-02 /106 W

-----111102Z 122932 /12

P R 111030Z MAR 77

FM AMEMBASSY TOKYO

TO SECSTATE WASHDC PRIORITY 6084

INFO AMEMBASSY BONN

AMEMBASSY LONDON

AMEMBASSY PARIS

AMEMBASSY ROME

USMISSION EC BRUSSELS

USMISSION OECD PARIS

UNCLAS TOKYO 3494

DEPT PASS FEDERAL RESERVE, TREASURY AND CEA

E.O. 11652: N/A

TAGS: EFIN, JA

SUBJECT: BOJ DISCOUNT RATE CUT

1. SUMMARY: BANK OF JAPAN ANNOUNCED MAR 11 0.5 PERCENT DISCOUNT RATE CUT, EFFECTIVE MAR 12. CALL MONEY DEALERS ASSN LOWERS CALL MONEY AND BILL DISCOUNT RATES BY 0.5 PERCENT, ALSO EFFECTIVE MAR 12. COMMERCIAL BANKS ARE EXPECTED TO ANNOUNCE REDUCTIONS IN SOME OF THEIR LENDING RATES. INTEREST RATES ON SAVINGS DEPOSITS AS WELL AS LONG-TERM INTEREST RATES ARE LIKELY TO REMAIN UNCHANGED FOR TIME BEING. END SUMMARY.

2. AT 3:30 PM MAR 11 LOCAL TIME, BOJ POLICY BOARD ISSUED FOLLOWING STATEMENT ON RATE CUT (INFORMAL TRANSLATION): VIEWING RECENT ECONOMIC DEVELOPMENTS, THE RATE UNCLASSIFIED

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OF RECOVERY HAS BEEN SLOWING SINCE LAST FALL. EVEN SINCE THE BEGINNING OF THE NEW YEAR, DOMESTIC DEMAND HAS REMAINED WEAK AND BUSINESSMEN'S FORECASTS HAVE NOT PRESENTED ANY BRIGHT PICTURES. DURING THIS PERIOD, ON THE PRICE SIDE, WHOLESALE PRICES HAVE BEEN RISING MODERATELY; IN THE BALANCE OF PAYMENTS, JAPAN'S CURRENT ACCOUNT BALANCE CONTINUED TO REGISTER A SUBSTANTIAL

SURPLUS.

JUDGING FROM THESE DEVELOPMENTS, THE BANK OF JAPAN DECIDED IT IS DESIRABLE TO LOWER THE OFFICIAL DISCOUNT RATE BY 0.5 PERCENT, EFFECTIVE MAR 12, TO CONTRIBUTE TO A HEALTHIER BUSINESS RECOVERY.

OF COURSE, PRICE STABILITY REMAINS AN IMPORTANT OBJECTIVE; AND THE BOJ WILL CONTINUE TO PAY ADEQUATE ATTENTION TO FUTURE PRICE DEVELOPMENTS."

3. FOLLOWING TABLE SHOWS NEW BOJ RATE SCHEDULE, EFFECTIVE MAR 12:

	NEW RATE	OLD RATE
	(PERCENT PER ANNUM)	
(1) DISCOUNT RATE ON COMMERCIAL BILLS	6.0	6.5
(2) INTEREST RATE ON LOANS SECURED BY GOJ BONDS, SPECIALLY DESIGNATED SECURITIES, AND CERTAIN OTHER BILLS ANALOGOUS TO COMMERCIAL BILLS	6.0	6.5
(3) INTEREST RATE ON LOANS SECURED BY OTHER PAPER	6.25	6.75

4. FOLLOWING BOJ DISCOUNT RATE CUT, CALL MONEY DEALERS ASSN ANNOUNCED MAR 11 THAT THEY WILL LOWER CALL MONEY AND BILL DISCOUNT RATES BY SAME 0.5 PERCENT. AS A RESULT, CALL MONEY RATE (UNCONDITIONAL) WILL BE LOWERED FROM 7.0 PERCENT TO 6.5 PERCENT PER ANNUM, AND BILL DISCOUNT RATE WILL DECLINE FROM 7.5 PERCENT TO 7.0 PERCENT, EFFECTIVE MAR 12.

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5. COMMERCIAL BANKS ARE EXPECTED TO ANNOUNCE SHORTLY THE FOLLOWING NEW RATE SCHEDULE, EFFECTIVE MARCH 16:

	NEW RATE	OLD RATE
	(IN PERCENT PER ANNUM)	
(1) SHORT-TERM PRIME DISCOUNT AND LENDING RATE	6.25	6.75
(2) OTHER SHORT-TERM DISCOUNT AND LENDING RATES (MAXIMUM LIMIT)	8.00	8.50
(3) OVERDRAFT RATE (MAXIMUM LIMIT)	9.00	9.50

6. PRESS REPORTS PRIMIN FUKUDA AS SAYING TODAY HE IS NOT CONSIDERING IMMEDIATE SAVINGS RATE CUT TO ACCOMPANY BOJ DISCOUNT RATE CUT ACTION. HOWEVER, MOF ALSO REPORTED AS INTENDING TO LOWER SOME DEPOSIT RATES IN APR IF POSSIBLE. WHAT MOF HAS IN MIND NOT YET CLEAR. HOWEVER, THERE IS GENERAL EXPECTATION THAT LONG-TERM INTEREST RATES WILL NEITHER BE AFFECTED NOR ALTERED IMPORTANTLY AS A CONSEQUENCE OF TODAY'S

ANNOUNCEMENT.

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